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The Limits of Paternalism: A Case Study of Welfare Reform in Wisconsin

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This paper uses a pooled sample constructed from the Food Stamp Quality Control data for the fiscal years 1993 to 2006 to assess the effects of welfare reform upon the employment, earnings, income, and poverty trends among poor, single-mother families, both in Wisconsin and nationwide. It finds that the employment and earnings gains of the Wisconsin families exceed those of comparable families nationwide. However, there has been no significant change in the average income of the Wisconsin families, and the number of extremely poor families has increased more rapidly in Wisconsin than in the country as a whole. These findings provide the basis for a discussion of Wisconsin's antipoverty policy.

Key words: welfare reform, paternalism, antipoverty policy

Introduction

The preamble to the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 that replaced this country's cash aid welfare with Temporary Assistance to Needy Families (TANF) presents the policy goals that the new welfare reform law was intended to achieve. These goals center upon decreasing dependency through work and providing assistance to needy families. The new law also seeks

to reduce unwed child-bearing and to encourage the formation of two-parent families. However, there is little evidence that state welfare reforms affect the child-bearing and marriage decisions of poor families, and while there has been an increase in child support payments, it has been very modest (Acs & Nelson, 2001; Grogger & Karoly, 2005).

In contrast to its explicit statement of program goals, the new federal law places only general restrictions on how states should pursue these goals. It imposes time limits upon the receipt of cash aid assistance, and it requires that most aid recipients work or participate in work-related activities. However, the deadlines and sanctions that states impose to enforce work activity, and the proportion of their caseloads that they initially exempted from this work requirement, differ considerably. PRWORA also neither requires nor places restrictions on the use of financial incentives such as earned-income disregards and more generous benefit-reduction rates that enable many aid-recipient families to combine welfare benefits with earnings (Schoeni & Blank, 2000; Grogger & Karoly, 2005; Parrott & Sherman, 2007). Given the multiple goals of the welfare reform law and the relative freedom of the states to decide how they will achieve these goals, there is considerable variation of the design of state TANF programs.

The specific policies implemented by state TANF programs not only differ, they also entail potential trade-offs with regard to the goals of welfare reform. For example, financial incentives such as earned-income disregards and more generous benefit-rate reductions make it easier for aid-recipient families to raise their incomes by combining earnings with welfare benefits. Both experimental and econometric studies find that these incentives increase the employment, earnings, and incomes of aid recipients. But they also find, *ceteris paribus*, that these incentives are associated with increased welfare use. In contrast, time limits and work requirements that provide benefits only in return for unpaid work activities have a larger positive effect upon employment and earnings, and they are associated with reduced welfare payments (Grogger, 2003; Grogger & Karoly, 2005).

Because state TANF programs implement different policy combinations of financial incentives, work requirements, and

time limits, and because these policies involve different trade-offs with regard to the goals of welfare reform, the impact of state TANF programs upon the aid-eligible population varies considerably. The net effect of different programs upon family income is hard to predict because the increased earnings of aid-eligible families will be offset to some degree by benefit losses under any combination of policy reforms. Nonetheless, states that combine financial incentives with less rigid work requirements and time limits can be expected to increase participants' employment and earnings while achieving smaller reductions in welfare use. These states are likely to see relatively large income gains within the aid-eligible population. In contrast, states that enforce strict work requirements with time limits can expect larger reductions in the number of welfare recipients, as well as larger average increases in the employment and earnings of aid-eligible families. But by imposing strict work requirements and time limits, or otherwise restricting the ability of aid-recipient families to combine earnings with benefits, these states are also likely to see smaller income gains by these families.

The effects of different policy combinations upon poverty are also hard to predict, both because earnings gains are offset to varying degrees by benefit losses and because the effect of a net income gain (or loss) depends upon where that gain (or loss) occurs within the income distribution. If the incomes of families close to the poverty line increase, there is likely to be a reduction in the number of poor even when there are larger income losses among families well below the poverty line. In other words, it is possible for poverty to deepen while the official poverty rate declines, and a number of studies have linked welfare reform policies to deepening poverty among many single-mother families. In the aftermath of welfare reform, the number of single-mother families without earnings or public assistance income has grown, and so has the number of children in families in extreme poverty—that is, with incomes less than half the poverty line (Primus, Rawlings, Larin & Porter, 1999; Schoeni & Blank, 2000; Bavier, 2001; Parrott & Sherman, 2007).

In short, state TANF programs represent varying combinations of specific reform policies with differing trade-offs

regarding the goals of welfare reform. These policy combinations and trade-offs make it particularly difficult to predict the effects of state welfare programs upon the incomes of the aid-eligible population, and upon the level and depth of poverty within that population. Nonetheless, state TANF programs that give priority to caseload reduction and to moving aid-eligible families into unsubsidized employment do so at the risk of deepening the poverty and increasing the hardship of families that face the greatest challenges in transitioning from welfare to work.

No state has made a greater effort to promote work and reduce welfare dependency than Wisconsin, and this paper presents a descriptive study of the state's mixed success in achieving the goals of welfare reform. The next section discusses the history of welfare reform in Wisconsin and the specific reform policies it has adopted. The following sections compare the trends in the employment, earnings, income and poverty levels of the state's poor single-mother families to the corresponding national trends. This case study approach does not enable us to measure the effects of specific reform policies, or of the state's TANF program as a whole. It does, however, provide a detailed description of how the state's welfare reforms developed as part of a conservative effort to reinvent antipoverty policy. That effort has been characterized as governmental paternalism, a policy approach that imposes behavioral requirements upon the poor in return for assistance (Mead, 2004). By comparing state and national trends, this paper presents a descriptive assessment of the achievements and the limitations of Wisconsin's antipoverty policy.

Background: Welfare Reform in Wisconsin

The beginnings of welfare reform in Wisconsin can be traced back to the election of Tommy Thompson as governor in 1986. From the outset, Governor Thompson made the replacement of welfare with work-based assistance programs the centerpiece of his administration's social policy. The welfare rolls, which peaked at 100,000 families in 1986, had been cut nearly in half by 1996 and fell to a low of less than 11,000 families in 2000 before leveling off (see Table 1). These figures exclude

over 10,000 AFDC cases involving children in parentless families that were transitioned to kinship care or to caretaker supplements. Nonetheless, Wisconsin's caseload decline exceeded that of any other state with a substantial urban population. This caseload reduction was widely attributed to work-based programs that began with the Work Experience and Job Training Program (WEJT) in 1987 and culminated with the 1996 passage of Wisconsin Works (W-2) that replaced Aid to Families with Dependent Children (AFDC) statewide in September, 1997.

Over half the states used waivers (that allowed departures from AFDC program requirements) to begin welfare reform before the passage of PRWORA, but none did so more extensively than Wisconsin. Unlike most states that added financial incentives to the existing welfare system, Wisconsin demanded work as an eligibility condition for aid, and a principle means of enforcing work has been to prevent applicants from going on the rolls in the first place. Beginning with two welfare waiver experiments in 1994, Work First and Self Sufficiency First, Wisconsin encouraged and then demanded that aid applicants attend work orientations sessions and put in 60 hours of job search at least 30 days prior to receiving AFDC benefits. With the passage of W-2, these diversion efforts were institutionalized through the creation of a job ladder consisting of four tiers, or placement levels. Former AFDC recipients did not automatically qualify for assistance as they did in many states; they had to come in and apply like all other applicants and show that they had exhausted all other sources of assistance. Applicants meeting this requirement then met with a Financial and Employment Planner (FEP) who determined eligibility and placement on the W-2 job ladder. The preferred option was to limit cash aid by requiring applicants to accept unsubsidized employment, while offering them non-cash support and case management services. Only those judged unable to find unsubsidized jobs were assigned placements on the W-2 job ladder and granted cash aid in the form of flat monthly grants (i.e., they did not vary with family size). Most applicants who received cash aid were assigned to community service jobs and given monthly grants of \$673, while those judged least job ready were assigned to transitional "work-activity" programs that carried monthly grants of \$628. Under TANF, these W-2

participants were expected to progress up the job tiers into unsubsidized employment within two years. Any failure to meet the work activity requirements associated with their job tier was sanctioned by having their monthly grant reduced by \$5.15 for each hour missed and, if the failure persisted, by termination of their grant.

In addition to diverting aid applicants from cash aid assistance, Wisconsin has relied upon extensive sanctioning of W-2 participants to enforce work activity. These sanctions emerged as a major issue in the administration of W-2 in 2001 when a statewide audit found that many participants were being penalized inappropriately. That report by the Wisconsin Legislative Audit Bureau (2001) found that 21% of the caseload had been sanctioned during the preceding year and that 45% of these participants had been sanctioned in error, often in ways that did not accord with state policy. An earlier report by the General Accounting Office (USGAO, 2000) had established that W-2 participants were sanctioned more often and more severely than the participants in almost any other state welfare program. Unlike most states that apply sanctions only to a portion of the TANF grant (i.e., that received by the participating parent), Wisconsin enforces "full family sanctions" under which the entire cash grant can be withheld for instances of work noncompliance. Unlike most states, W-2 also sanctions for even one hour of missed activity, a policy which it terms "pay for performance," and it limits the rights of participants to appeal these sanctions by allowing the welfare agencies to investigate their own disputed cases. Finally, unlike most states, W-2 does not exempt a portion of its caseload from some form of work activity. W-2's work-activity requirements are immediate (with the exception of teen parents or the parents of infants less than 12 weeks of age) and relatively strict, and the "good cause" policies that govern when participants can get an excused absence from work activity are not enforced uniformly across agencies (Institute for Wisconsin's Future, 2005).

The diversion of former aid recipients and new applicants away from cash aid, and the strict sanctioning of many who received cash aid assistance, was enforced both through the competitive selection of welfare agencies to run W-2 and

through the initial performance contracts granted to those agencies. Under the so-called "right of first selection," public agencies were allowed to administer W-2 only if they first reduced their AFDC caseloads by 25% between September 1995 and August 1996. In several counties, including Milwaukee, where the public agencies either failed or refused to meet this requirement, the contracts to administer W-2 were granted to private agencies. The funding of those contracts was fixed, based upon the caseloads at the beginning of the contract period, and the agencies were allowed to keep up to 7% of the contract amount as profit, as well as up to 10% of any remaining funds that were unspent. Although these financial incentives were dropped when the contracts were renewed in 2002, they motivated agencies at the outset of W-2 to place as many aid applicants as possible into unsubsidized jobs, thereby avoiding the expense of creating community service jobs and transitional programs. They also provided an incentive to impose sanctions for instances of work noncompliance, thereby reducing cash aid grants and keeping the caseload to a minimum.

The redesign of welfare under W-2 thus centered upon the enforcement of a strict work requirement, and it was accompanied by a relatively generous system of work supports. Apart from the case management services and cash grants received by W-2 participants, Wisconsin extended child care and health care assistance to the entire low-income population. TANF eliminated a major work disincentive under AFDC by delinking Medicaid eligibility from welfare receipt. The passage of the State Child Health Insurance Program (SCHIP) then extended Medicaid eligibility to children in families with incomes up to 200% of the poverty line. However, most states continue to restrict parental eligibility for Medicaid based upon the means test used under AFDC in 1996, and in half the states a parent becomes ineligible for Medicaid when her income exceeds 69% of poverty (Greenstein & Guyer, 2001). Wisconsin is unique in extending parental eligibility for Medicaid and child care assistance to 185% of the poverty level, with no charges or co-pays for families with incomes below 150% of the poverty level. W-2 also allows two-parent families to receive cash aid assistance, and it encourages child support by noncustodial parents through a 100% pass through of all support payments

to the family.

Unfortunately, the same diversion policies that limited the receipt of cash aid also initially limited the receipt of these noncash benefits by many eligible families. In assigning aid applicants to either subsidized or unsubsidized work placements, FEPs were encouraged to follow a policy of "light touch," providing applicants with or informing them about only such assistance as the FEP considered necessary. In many instances, this "light touch" extended to noncash benefits that were not linked to cash aid welfare. The failure to inform aid applicants of their eligibility for this assistance was more pronounced in Milwaukee and other counties where private agencies administered W-2 (Mead, 2004). Federal rules require that eligibility determinations for noncash benefit programs be made by public employees. Where county agencies continued to administer welfare, the FEPs would refer W-2 applicants to a Support Services Planner who would determine their eligibility for food stamps, childcare and Medicaid assistance. Because they were employed by private agencies, the FEPs in Milwaukee and a few other counties could not easily make these referrals, and it appears that under "light touch" they were not encouraged to do so.

Wisconsin is unusual in the extent to which it both imposes a strict work requirement upon and provides case management assistance to cash aid recipients, while extending the right to noncash benefits to low-income working families. This combination of work requirements and supports makes more demands of aid recipients while presumably supervising them more closely to insure that they meet those demands. But to characterize this as "paternalistic governance" assumes that only potential aid applicants who are employable have been diverted from cash aid assistance, and that only those who refuse to comply with work requirements, not those who are unable to comply, have been sanctioned or terminated. In fact, many of these families face difficulties that limit their ability to find and hold jobs, including physical and mental health problems, ill children or children with disabilities, alcohol and drug problems, low levels of education and cognitive skill, high levels of domestic violence, and limited work experience. Families facing these difficulties are more likely to be sanctioned for

failing to comply with work requirements, and studies show that sanctioned families that leave the welfare rolls have lower employment rates than families that leave for any other reason (Pavetti, Derr, & Hesketh, 2003). More generally, paternalistic governance assumes that poor families will comply with work requirements because they have something to lose by not complying. But how do you make demands upon nonworking families that have been diverted or terminated from cash aid assistance?

Wisconsin has been relatively successful at reducing welfare use and promoting work. It greatly reduced welfare use by requiring most poor families to seek unsubsidized jobs, and it insured that cash aid recipients met TANF work requirements by sanctioning or terminating any who did not comply. It is not clear, however, that Wisconsin has been successful at helping poor families become economically self-sufficient. Under W-2, participants cannot hold unsubsidized jobs and receive cash aid grants, and maximizing the income of aid-recipient families by allowing them to retain earnings was never a program goal. Consequently, the state's success in reducing welfare use and increasing employment has likely involved trade-offs with the goal of providing assistance to needy families, and these potential trade-offs raise a number of research questions.

First, has the increased work effort and earnings of aid-eligible families been sufficient, on average, to offset the loss of benefit income? In other words, has there been any increase in the average income of aid-eligible families? If not, the sharp reduction in welfare dependency will have been achieved at the cost of little or no improvement in the economic situation of the state's poorest families.

Second, has the distribution of income among aid-eligible families become markedly less equal under W-2? If so, the welfare losses of the families whose incomes have fallen may exceed the welfare gains of those whose incomes have risen, even if the average family income has remained stable or increased slightly.

Finally, and as a corollary to the preceding question, has there been a substantial deepening of poverty and consequent increase in the number of extremely poor families under

W-2? Perhaps the most unique feature of Wisconsin's welfare reforms has been its extension of the work requirement to nearly all aid-recipient families. But the diversion and sanctions policies that have enforced that work requirement may have contributed to a substantial increase in the number of extremely poor families.

After discussing the data and measures used in the analysis, the following sections seek to answer these questions by comparing the trends in the level and distribution of earnings and income, and in the level and intensity of poverty, among aid-eligible families in Wisconsin to the comparable trends nationwide.

Data and Measures

In cities and less-populated states such as Wisconsin, estimates of the size of the poverty population are usually based upon small subsamples from Census Bureau surveys. Because of the small size of the subsample of poor respondents, using these surveys to analyze income trends among poor households yields estimates that are highly uncertain. Many analysts therefore supplement Census data on the number of poor individuals and families with administrative data derived from social programs that serve people with poverty-level incomes. Enrollment in the food stamp program (which provides food subsidies to families with incomes up to 130 percent of the poverty level) is frequently used as a proxy for the poverty population. This study uses a pooled sample created from the Food Stamp Quality Control (QC) data for the fiscal years 1993 to 2006 to document the employment, earnings, and income trends among poor single-mother families. Single-mother families account for more than 60% of food stamp families with children and are most likely to be impacted by welfare reform. Although the comparisons presented in Tables 2 to 4 are limited to single-mother families, the trends are essentially the same when the sample is expanded to include all food stamp families with children.

The QC data are the product of an ongoing review of food stamp units (i.e., families) that is designed to measure the accuracy with which eligibility and benefit determinations are

made. The data are from a national sample, stratified by state, of approximately 60,000 individuals and families receiving food stamps during the fiscal year review period of October through September. The data are collected by QC reviewers who gather financial and demographic information from the sampled unit's case files, then visit the household and re-interview the participants to insure that the information is correct. Compared to surveys such as the Current Population Survey, which typically underestimate the income received from various sources, the QC data represents a more accurate and complete assessment of both the earned and unearned income received by poor families. In the QC data, and in the tables presented below, earnings refer to the total amount of wages and self-employment earnings received from unsubsidized jobs. Income includes both earnings and "unearned income"—i.e., the benefits received from various public assistance and transfer programs. Family income thus includes AFDC and TANF benefits, but these benefits are not included in earnings even though their receipt is increasingly contingent upon work performance.

All earnings and income data in the QC files were inflated to 2006 dollars based upon the Consumer Price Index (CPI-U) for the year in which they were reported. In order to simplify the presentation and to reduce the effect of sampling variation, the average employment, earnings, and income levels were then averaged over two-year periods, beginning with the years 1993 and 1994 and extending through 2005 and 2006. In addition to verified earnings and income data for all food stamp recipients, the QC data include a measure of family income as a percent of the poverty threshold (for a given family size), and can be used to estimate trends in the extent of poverty within this population. Finally, the QC data include sampling weights which enable us to estimate employment, earnings, and income trends for the entire recipient population. The estimates presented here are adjusted in accordance with these sampling weights, while the tests of statistical significance are based upon unweighted data.

Table 1: AFDC/TANF caseload, food stamp recipients, and number of poor in U.S. & Wisconsin

Indicator:	1993-94	1995-96	1997-98	1999-00	2001-02	2003-04	2005-06
<i>AFDC/TANF caseload^a</i>							
U. S. (1,000s)	5,023	4,613	3,395	2,398	2,076	2,002	1,838
Wisconsin	77,901	62,779	25,738	11,250	12,344	14,917	11,156
<i>Food stamp recipients^b</i>							
U. S. (1,000s)	27,193	26,037	21,283	17,626	18,167	22,210	25,238
Wisconsin	330,214	307,243	212,461	182,007	239,251	308,805	351,385
<i>Number of poor^c</i>							
U. S. (1,000s)	38,555	36,477	35,025	33,051	34,092	36,504	38,494
Wisconsin	526,340	451,087	470,754	451,945	510,134	562,608	568,850
<i>Recipients as % of poor</i>							
U. S.	71%	71%	61%	53%	53%	61%	66%
Wisconsin	63%	68%	45%	40%	47%	55%	62%

^aU.S. Dept. of Health & Human Services, Admin. for Children & Families; and Wisconsin Dept. of Workforce Development.

^bU.S. Department of Agriculture, Food & Nutrition Service, Food Stamp Quality Control Files, authors' calculations.

^cU.S. Bureau of Census, Small Area Income & Poverty Estimates, 1993-1999; American Community Survey, 2000-2006.

The QC data thus offer a number of advantages for studying income and poverty trends among poor families, but their use as a proxy for the poverty population can be criticized on two counts. First, it might be objected that family units with incomes above the poverty level are eligible for food stamps, and therefore the estimates of poor families are inflated. However, the program data show that over 90 percent of food stamp recipients have household incomes below the poverty threshold (U.S. Department of Health and Human Services, 1997), and the trends reported here explicitly focus upon families that are below, and often well below, the poverty line. Second, and more importantly, the number of families receiving food stamps fell sharply following the passage of the welfare reform law (see Castner, 2000). Part of this decline was due to both the tightening of certification to reduce the error rate and to the denial of food stamp benefits to (most) legal immigrants. However, the decrease in food stamp usage was also linked to welfare reform and the increased stigma

associated with all forms of public assistance (Greenstein & Guyer, 2001). This is particularly likely to have occurred in Wisconsin, where many welfare agencies and caseworkers appear to have interpreted the policy of "light touch" to mean that welfare applicants need not be informed of other forms of public aid for which they remained eligible.

The figures in Table 1 document the AFDC/TANF caseload, the number of food stamp recipients, and the size of the poverty population in Wisconsin and nationwide over the period from 1993 to 2006. As the top rows of Table 1 reveal, the number of welfare cases dropped dramatically between 1993 and 2000 before leveling off. The percentage decrease in Wisconsin over this seven-year period amounted to 86% of its 1993 caseload, compared to a 56% decrease nationwide. (As earlier discussed, part of the caseload decline in Wisconsin is due to the reclassification of children in parentless families, since they are ineligible for placement under W-2.) Paralleling this decline in welfare receipt, the number of food stamp recipients dropped in Wisconsin by 45% between 1993-94 and 1999-2000, compared to a 35% decline nationwide. As the figures in Table 1 also show, these declines in food stamp receipt far exceeded the reduction in the poverty population during the same period. Over this period the number of food stamp recipients decreased from 71% to 53% of the poverty population nationwide, and from 63% to 40% of the poverty population in Wisconsin. However, unlike the welfare caseload, the number of food stamp recipients rebounded after 2000 and represented nearly the same percentage of the poor in 2006 as they had in 1993. Thus, while the size of the food stamp population has fluctuated, it continues to represent a large majority of the poor. Consequently, any continuous increase or decrease in the employment, earnings or income of food-stamp families over the entire coverage period represents either an improvement or a deterioration in the economic situation of most poor families. Continuous changes (i.e., secular trends) in these economic outcomes cannot be attributed to the fluctuations in food stamp receipt.

Table 2: Employment, earnings and income trends among single-mother, food stamp families in U.S. and Wisconsin

	1993-94	1995-96	1997-98	1999-00	2001-02	2003-04	2005-06	Change
<i>% Employed:</i>								
U.S.	19%	22%	30%	38%	36%	37%	41%	+22%**
Wisconsin	20%	25%	40%	41%	41%	48%	51%	+31%**
<i>Earnings:^a</i>								
U.S.	\$179	\$200	\$272	\$336	\$340	\$341	\$362	+\$183**
Wisconsin	\$156	\$196	\$382	\$424	\$437	\$481	\$483	+\$327**
<i>Income:</i>								
U.S.: Mean	\$704	\$690	\$735	\$770	\$755	\$727	\$714	+\$10**
Std. Dev.	\$400	\$402	\$440	\$476	\$497	\$511	\$520	
Coeff. of Variation	0.57	0.58	0.60	0.62	0.66	0.70	0.73	
WI: Mean	\$901	\$886	\$916	\$924	\$926	\$913	\$892	-\$9
Std. Dev.	\$351	\$367	\$476	\$512	\$586	\$591	\$572	
Coeff. of Variation	0.39	0.41	0.52	0.55	0.63	0.65	0.64	
<i>Earnings/Income Ratio:</i>								
U.S.	0.25	0.29	0.37	0.44	0.45	0.47	0.51	
Wisconsin	0.17	0.22	0.42	0.46	0.47	0.53	0.54	

Source: Food Stamp Quality Control Files, authors' calculations.

^aEarnings and income figures are two-year averages (in 2006 \$). Here and in Tables 3 & 4, the Chi Square test assessed the significance of the changes in the employment and poverty percentages between the initial and final two-year periods, while two-tailed t-tests assessed the significance of the mean differences in earnings and incomes. For both tests, ** indicates $p < .01$.

Average Employment, Earnings, and Income Levels of Poor, Single-Mother Families

The figures in Table 2 show the state and national trends in employment, earnings and income among single-mother families receiving food stamps. As we might expect, given Wisconsin's strict work requirement as an eligibility condition for aid, the level of employment among poor single-mother families has risen more in Wisconsin than it has nationwide. In Wisconsin, the employment rate among these families rose

from 20% to 51% over the entire coverage period, a statistically significant increase of 31 percentage points. The comparable increase for the entire U.S. sample was from 19% to 41%, or 22 percentage points. Wisconsin has been comparatively successful at increasing employment among poor, single-mother families.

Wisconsin has also been comparatively successful at boosting the average earnings of these families. Again using the two-year averages at the beginning and end of the 1993 to 2006 period, and basing comparison on constant 2006 dollars, real earnings rose from \$156 to \$483 among the Wisconsin families, more than a threefold increase. Over the same period the average real earnings for the national sample of poor single-mother families rose from \$179 to \$362, a twofold increase. As the bottom rows of Table 2 reveal, earnings account for a growing share of the average income of these families, both in Wisconsin and nationwide. In Wisconsin, the share of family income derived from earnings increased from less than a fifth to more than half, while nationwide the earnings share of family income increased from a quarter to a little over half.

Yet, despite their relatively large earnings gains, there has been no improvement in the average income of Wisconsin's poorest families, either in absolute terms or relative to the incomes of similar families nationwide. The average real incomes of poor, single-mother families show no trend increase, fluctuating around \$900 a month in Wisconsin and around \$700 a month nationwide throughout the 14-year study period. On the whole, poor, single-mother families are better off in Wisconsin than they are nationwide, but they are no better off in absolute or relative terms than they were in the years prior to the passage of W-2. With regard to our first research question, there has been no significant change in the average income of Wisconsin's aid-eligible families. The increased work effort and earnings of these families has not resulted in any overall improvement in their economic well-being.

Of course, averages are only part of the story. The achievements and limitations of welfare reform policies also depend upon what happens to the distribution of income among poor families. Table 2 addresses this issue by showing the trends in two measures of income inequality—the standard deviation

and the coefficient of variation (i.e., the ratio of the standard deviation to the mean) of the sample income distributions. Both measures show a substantial increase in the variability of income among poor, single-mother families. Between 1993-94 and 2005-06 the coefficient of variation of the family income distribution increased from .57 to .73 in the national sample (a 28% increase), and from .39 to .64 in the Wisconsin sample (a 64% increase). With regard to our second research question, the economic circumstances of poor, single-mother families have become increasingly disparate, and this change has been much more pronounced in Wisconsin than it has nationwide. To appreciate the implications of this growing income dispersion, we need to look at how incomes are changing relative to the poverty threshold.

The Changing Income/Poverty Ratios among Poor, Single-Mother Families

A recurrent finding in studies of welfare reform is that the earnings and income gains of the past decade have not been evenly spread across poor families. A growing number of poor families have seen their incomes fall sharply even as the overall poverty rate declines (see Parrott & Sherman, 2007). Table 3 casts light upon this issue by comparing the poverty trends among poor, single-mother families in Wisconsin and nationwide. The figures in the table show the changes in both the number and percentage of poor, single-mother families with incomes at or above 75% of poverty, between 50% and 75% of poverty, and below 50% of poverty (based upon family size). As these measures show, the number of extremely poor, single-mother families has decreased nationwide along with the number of poor, single-mother families in general. In contrast, Wisconsin has seen a marked increase in the number and percentage of both extremely poor families and families close to or above the poverty line. The proportion of poor, single-mother families in Wisconsin with incomes below 50% and the proportion with incomes equal to or above 75% of poverty each increased by approximately a fifth (i.e., by 23 and 18 percentage points, respectively).

It is important to note that at the outset of this period Wisconsin differed greatly from the country as a whole in

Table 3: Income/poverty ratios of single-mother, food stamp families in U.S. and Wisconsin.

Number of Families: ^a	1993-94	1995-96	1997-98	1999-00	2001-02	2003-04	2005-06	Change
<i>U.S.: (1,000s)</i>								
> 75% of Poverty	779	799	812	751	769	884	1,008	+229
50-74% of Poverty	1,407	1,229	931	717	648	709	782	-625
< 50% of Poverty	2,223	2,167	1,615	1,185	1,222	1,564	1,758	-465
Total Families	4,409	4,195	3,358	2,653	2,639	3,157	3,548	-861
<i>Wisconsin:</i>								
> 75% of Poverty	14,851	14,898	13,472	12,717	15,716	21,105	24,082	+9,231
50-74% of Poverty	35,584	24,300	10,614	8,478	9,695	11,899	12,378	-23,206
< 50% of Poverty	5,833	13,231	12,236	9,508	13,592	17,451	18,330	+12,497
Total Families	56,268	52,429	36,322	30,703	39,003	50,455	54,790	-1,478
Percent of Families:	1993-94	1995-96	1997-98	1999-00	2001-02	2003-04	2005-06	Change
<i>U.S.:</i>								
> 75% of Poverty	18%	19%	24%	28%	29%	28%	28%	+10%**
50-74% of Poverty	32%	29%	28%	27%	25%	22%	22%	-10%
< 50% of Poverty	50%	52%	48%	45%	46%	50%	50%	0%
Income/Poverty Ratio ^b	0.52	0.51	0.53	0.55	0.55	0.53	0.53	
Standard Deviation	0.27	0.28	0.30	0.33	0.34	0.36	0.37	
Coeff. of Variation	0.52	0.55	0.57	0.60	0.62	0.68	0.70	
<i>Wisconsin:</i>								
> 75% of Poverty	26%	28%	37%	41%	40%	42%	44%	+18%**
50-74% of Poverty	63%	46%	29%	28%	25%	24%	23%	-40%
< 50% of Poverty	10%	25%	34%	31%	35%	35%	33%	+23%
Income/Poverty Ratio	0.65	0.64	0.64	0.65	0.65	0.67	0.67	
Standard Deviation	0.21	0.23	0.31	0.34	0.40	0.44	0.43	
Coeff. of Variation	0.33	0.36	0.48	0.52	0.62	0.66	0.65	

Source: Food Stamp Quality Control Files, authors' calculations.

^a Average number of families over two-year period.

^b Average ratio of gross family income to poverty threshold over two-year period.

The Chi Square test assessed the significance of the changes in the employment and poverty percentages between the initial and final two-year periods, while two-tailed t-tests assessed the significance of the mean differences in earnings and incomes. ** indicates $p < .01$.

terms of the percentage of single-mother families in extreme poverty. Only 10% of poor single-mother families in Wisconsin fell into this category in 1993-94, compared to 50% of comparable families nationwide. Wisconsin's cash aid programs did not keep families out of poverty, but they did prevent all but a small fraction from being extremely poor. By the end of the 1993-2005 period, however, both the number and proportion of extremely poor families in the state had increased more than threefold. The incidence of extreme poverty among Wisconsin's single-mother families has sharply increased to converge toward the national average, and this increase clearly coincided with the statewide implementation of W-2. Between 1993-94 and 1997-98 the percentage of extremely poor, single-mother families in the Wisconsin sample jumped from 10% to 34% and then leveled off over the remainder of the coverage period.

Using incomes below 50% of the poverty threshold is a conventional, but arbitrary, way to measure deepening poverty. A less intuitively appealing, but more accurate measure is the coefficient of variation of the income/poverty ratios. Like the average real incomes of these families, the mean income/poverty ratio shows little change throughout this period, fluctuating between .51 and .55 for the national sample, and between .64 and .67 for the Wisconsin sample. Dividing the standard deviation by these averages shows how the income/poverty ratios have become more unequal over time. This coefficient of variation of the income/poverty ratio nearly doubles in the Wisconsin sample, increasing from .33 for the years 1993-94 to .65 for the years 2005-06. Over the same period, this coefficient of variation increased from .52 to .70 for the country as a whole, an increase of a little more than a third. The income/poverty ratios of poor, single-mother families have become more unequal nationwide, but the change has been far more dramatic in Wisconsin. To understand what is behind this increasing disparity, we need to look at how the sources of income have changed for these families.

Table 4. Income sources in top and bottom half of income distribution of single-mother, food stamp families in U.S. and Wisconsin.

	1993- 94	1995- 96	1997- 98	1999- 00	2001- 02	2003- 04	2005- 06	Change
U.S., Upper 50%:								
Earnings ^a	\$321	\$363	\$497	\$601	\$605	\$626	\$670	+\$349**
AFDC/ TANF Income	\$419	\$369	\$276	\$208	\$168	\$114	\$97	-\$322**
Gross Income	\$990	\$986	\$1,066	\$1,138	\$1,143	\$1,134	\$1,132	+\$142**
U.S., Lower 50%:								
Earnings	\$20	\$21	\$30	\$55	\$59	\$49	\$51	+\$31**
AFDC/ TANF Income	\$307	\$295	\$276	\$221	\$167	\$128	\$109	-\$198**
Gross Income	\$386	\$365	\$378	\$378	\$345	\$309	\$290	-\$96**
WI, Upper 50%:								
Earnings	\$287	\$340	\$667	\$698	\$738	\$855	\$819	+\$532**
AFDC/ TANF Income	\$548	\$484	\$241	\$168	\$176	\$69	\$68	-\$480**
Gross Income	\$1,149	\$1,147	\$1,282	\$1,331	\$1,397	\$1,387	\$1,353	+\$204**
WI, Lower 50%:								
Earnings	\$19	\$43	\$93	\$151	\$138	\$106	\$136	+\$117**
AFDC/ TANF Income	\$567	\$521	\$357	\$201	\$147	\$93	\$82	-\$485**
Gross Income	\$641	\$607	\$545	\$516	\$457	\$437	\$417	-\$224**

Source: Food Stamp Quality Control Files, authors' calculations.

^aAll earnings and income figures are two-year averages (in 2006 dollars). The Chi Square test assessed the significance of the changes in the employment and poverty percentages between the initial and final two-year periods, while two-tailed t-tests assessed the significance of the mean differences in earnings and incomes. ** indicates $p < .01$.

The Changing Income Sources of Poor, Single-Mother Families

The rapidly growing income disparity among Wisconsin's poor, single-mother families suggests that some of these families have been comparatively successful at raising their earnings and achieving real income gains, while many others have been unable to earn enough to offset the loss of benefit income. The figures in Table 4 support this interpretation. They show the trend changes in the average real earnings, AFDC/TANF income, and total income of poor single-mother families, both in Wisconsin and nationwide, in the top and bottom halves of their income distributions.

Looking first at the top half of their income distribution, the average earnings gains of poor, single-mother families have more than equaled the average loss of AFDC/TANF income. The average real monthly earnings of these families increased by \$532 in Wisconsin (i.e., from \$287 to \$819), and by \$349 nationwide (i.e., from \$321 to \$670), between 1993-94 and 2005-06. These earnings gains were sufficient to offset the loss of welfare income, which averaged \$480 in Wisconsin and \$322 nationwide. The real incomes of these families increased by more than the difference in these earnings gains and welfare losses because other forms of unearned income, especially Supplemental Security Income (SSI), increased over this 14-year period. The net result of these trends is that poor, single-mother families in the top half of their income distribution saw their real monthly incomes increase by \$204 in Wisconsin and by \$142 nationwide. Judging from these families, welfare reform in Wisconsin has been successful in offsetting relatively large reductions in welfare payments with relatively large earnings gains.

A very different picture emerges when we look at families in the bottom half of the income distribution. Among these families, the earnings gains that have accompanied welfare reform have offset only a small fraction of the welfare benefit losses, and real monthly incomes have dropped precipitously. The average monthly earnings of these families increased by \$117 in Wisconsin (from \$19 to \$136), and by \$31 nationwide (from \$20 to \$51). These earnings gains represent a small fraction of

the average loss of monthly welfare income, which amounted to \$485 in Wisconsin and \$198 nationwide. Again, this loss of welfare benefit income was cushioned somewhat by the growth of other forms of government assistance. Nonetheless, over this 14-year period the average monthly income of the Wisconsin families in the bottom half of the distribution fell by \$224, or from \$641 to \$417 a month. The average monthly income of comparable families nationwide fell by only \$96, or from \$386 to \$290 a month. As these figures indicate, there has been a relatively small increase in the average earnings of families in the bottom half of this distribution, both in Wisconsin and nationwide. At the same time, there has been a larger reduction in the average amount of welfare income in Wisconsin. The answer to our third research question, then, is that there has been a substantial deepening of poverty among the poorer half of single-mother, food-stamp families in Wisconsin. Their real monthly incomes have decreased by more than a third, a proportionate income loss considerably greater than that experienced by comparable families nationwide.

Summary and Discussion

Wisconsin's work-based approach to welfare reform has been widely acclaimed for reducing welfare use while increasing the employment and earnings of its poorest citizens. The evidence presented here indicates that these achievements are only part of the story. Wisconsin's poor, single-mother families are, on average, working and earning more than they did, and these employment and earnings gains exceed those of comparable families nationwide. The reduction in welfare dependency has not been matched, however, by any improvement in their overall economic well-being. The relatively large earnings gains of Wisconsin's poor, single-mother families have been offset by relatively large benefit losses and, as a result, there was no significant change in their average real incomes between 1993 and 2006. The overall economic situation of these families showed no improvement, either absolutely or relative to that of comparable families nationwide.

The incomes of poor, single-mother families have also become more unequal, and the disparity in the economic

circumstances of these families has grown more rapidly in Wisconsin than nationwide. The percentage of families with incomes that are either at or near the poverty threshold and the percentage with incomes that are less than half the poverty threshold have both increased markedly in Wisconsin. In sharp contrast to national trends, both the number and percentage of extremely poor families in Wisconsin have increased more than threefold. The deepening poverty of the state's poorest families, like the improving economic circumstances of those somewhat better off, is a consequence of the changing sources of income. Although cushioned by the expansion of other forms of government assistance, the amount of welfare income—averaged across aid-eligible families—has dropped precipitously. This decrease in the average amount of cash aid has been considerably greater in Wisconsin, which traditionally afforded more cash assistance to poor families than the nation as a whole. Poor, single-mother families in Wisconsin and nationwide now depend upon their own earnings not just to escape poverty, but to avoid extreme poverty. In light of this growing dependence upon earnings, perhaps the most troubling finding in the preceding analysis is that the earnings gains among the bottom half of Wisconsin's poor, single-mother families have been only slightly greater than the earnings gains among comparable families nationwide. Wisconsin's welfare reform program has been no more successful than TANF programs nationwide in helping these families achieve economic self-sufficiency.

These findings provide the context for a critical evaluation of Wisconsin's antipoverty policy. That policy has been characterized as a form of governmental paternalism because it uses work requirements to set behavioral standards. A paternalistic approach to antipoverty policy assumes that the poor are part of the cultural mainstream in valuing work (i.e., they express a desire to work), but they often fail to act in ways that are consistent with those values. In other words, the initial premise of paternalistic policies is that the poor are poor primarily because of their own behavioral failings. To insure that the behavior of the poor conforms to accepted values, this policy approach prescribes behavioral standards, and it enforces those standards through close supervision and the threatened loss of aid for noncompliance. In the view of their proponents,

paternalistic anti-poverty programs serve the interests of both society and the poor by enforcing behavioral standards to which the poor are often unable to conform through their own volition (Mead, 1997).

W-2 supervises the behavior of poor clients through its case management services and placements on the W-2 job ladder, but it extends those services and placements to a very small fraction of potential aid recipients. The primary means of enforcing work has been through its diversion (and sanctions) policies. These diversion policies are defended on the grounds that they do not deny assistance to the poor. Rather, they are claimed to be directive in the sense that aid applicants are informed of the behavioral requirements associated with assistance, and those who are work-ready simply decide to avoid welfare. But such rationalizations assume that poor clients who have not conformed to work norms through their own volition will suddenly do so when informed of W-2's work requirements. If poverty is primarily the result of behavioral failings rooted in the lifestyles of the poor, it seems unlikely that diversion policies are going to enable the poor to overcome these behavioral failings.

It is more accurate to say that the state's diversion and sanctions policies are a principal reason why W-2 has had so little success at improving the economic circumstances of the state's poorest families. By either diverting or sanctioning the majority of aid applicants, Wisconsin showed the limits of its commitment to providing the supervision and work supports that many poor families need to meet the new work requirements. For example, the proponents of paternalistic policies acknowledge that it is necessary to screen high-risk populations for mental disorders and to provide treatment, especially for depression, *before* enforcing behavioral changes through diversion and sanctions policies (see Shore, 1997). However, the provision of services under W-2, including screening and treatment programs for depression, has been limited to the small fraction of the aid-eligible population that continued to receive assistance *after* the state diverted the majority of the aid-eligible population from its welfare rolls. The subsequent collapse of the W-2 caseload led to a partial revision of the program's diversion and sanctions policies. But there has

been little effort to recruit aid-eligible families and extend to them the case management and other work supports available under W-2. As the figures in Table 1 show, the number of W-2 placements, which includes cases with and those without cash assistance, has leveled off and represents a small percentage of the state's aid-eligible families. Today, the state's worsening financial situation limits its ability to provide additional support services, but those budgetary constraints were considerably looser at the outset of welfare reform. The policies that the state began to implement well before the inauguration of W-2 were intended to achieve rapid caseload reduction, even if that meant denying many poor families the supervision and support services they needed to make successful transitions from welfare to work. Rather than a commitment to paternalistic governance, the implementation of W-2 was guided by the traditional conservative belief that the problems of the poor are best addressed by enforcing work norms, regardless of the readiness of many poor families to make the transition to unsubsidized employment. It seems somewhat ironic, but the conservative beliefs that gave impetus to paternalistic anti-poverty policies ultimately limit what can be achieved through those policy initiatives.

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